



**DEPARTMENT OF INSURANCE  
STATE OF ARIZONA**  
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## **SUPPLEMENTARY SCHEDULE F-5 FOR MORTGAGE GUARANTY INSURERS THAT CEDE TO CAPTIVE AND/OR UNAUTHORIZED REINSURERS**

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A.R.S. § 20-1557(D) provides that a mortgage guaranty insurer shall file a report with the Director that includes all information regarding its reinsurance agreements as required by the Director. The mortgage guaranty insurer shall file the report with its annual and quarterly financial statements.

In addition to the Schedule F, Part 5, required to be filed with your Company's Annual Statement, please also **file a "Supplementary Schedule F-5"** containing the information required by Schedule F, Part 5, Unauthorized Reinsurance, of the Property and Casualty Insurance Company Annual Statement blank, but including the following additional information:

- Contingency reserves ceded should be included in the amount reported for "reinsurance recoverable."
- Reinsurance ceded should be grouped and subtotaled according to the following categories:
  - Lender Captive – Authorized
  - Conduit – Authorized
  - Subtotal – Authorized
  - Lender Captive – Unauthorized
  - Conduit – Unauthorized
  - Other Unauthorized
  - Subtotal - Unauthorized
  - Lender Captive – Deposit Accounting
- Reinsurance ceded to any conduit mortgage guaranty reinsurer ("Conduit") whose primary business is to retrocede to lender captive reinsurers ("Retrocessionnaires") should be identified and accounted for as follows:
  - The Retrocessionnaires should be listed and grouped under the name of the Conduit, along with the information regarding reinsurance attributable to each Retrocessionnaire. Amounts should then be subtotaled for each Conduit.
  - If premiums are ceded to a Conduit which then retrocedes to one or more Retrocessionnaires, with trust funds or other security deposited by the Retrocessionnaire(s) jointly with the Conduit to secure reinsurance ceded by your Company, credit taken on Supplementary Schedule F-5 for reinsurance ceded to the Conduit shall not exceed the reserve security for the respective reserves retroceded to each Retrocessionnaire (i.e., unless Retrocessionnaires are jointly liable for each other's reinsurance, reserve security provided by one Retrocessionnaire can not be reported as an offset to reinsurance ceded to a different Retrocessionnaire).

The provision for unauthorized reinsurance thus computed should be included in the provision for reinsurance reported on Page 3 of the mortgage guaranty insurance company's respective Annual Statement or Quarterly Statement.

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Credit for reinsurance shall be allowed in accordance with applicable statutes, rules and accounting practices and procedures.

Examples of provisions in reinsurance agreements or related trust agreements which result in insufficient risk transfer include, but are not limited to, the following:

- The net premium ceded, after taking into account the ceding commission, is not reasonably related to the risk transfer.
- Unusual termination provisions, such as provision for automatic termination and recapture by the Ceding Insurer with no further liability to the Reinsurer, in the event the Reinsurer fails to adequately fund the reinsurance treaty trust account.
- Upon termination of the Reinsurance Agreement on a cut-off basis, the Ceding Insurer will not recapture any unexpired contingency reserves ceded; rather, contingency reserves will be released to the Reinsurer.
- The Reinsurer shall have no liability to the Ceding Insurer in the event the Assets in the Trust Account are insufficient to pay any amounts then due and payable by Reinsurer.
- The Ceding Company shall have no recourse against the Reinsurer or its assets other than the Trust funds.
- The lack of an acceptable insolvency clause.

Examples of provisions in Reinsurance Treaty Trust Agreements that do not comply with Arizona Statutes (A.R.S. §§ 20-261.02; 20-1557(C)), Rules (A.A.C. R20-6-1603), and NAIC Accounting Practices and Procedures (Appendix A-785 to the NAIC Accounting Practices and Procedures Manual; the NAIC Model Regulation on Credit for Reinsurance) include, but are not limited to, the following:

- Under the Trust Agreement, written notice to the Grantor (Reinsurer) is required for the Beneficiary (Ceding Insurer) to withdraw assets from the Trust Account.
- The Grantor (Reinsurer) may withdraw or substitute Trust Assets without the Beneficiary's (Ceding Insurer's) consent or prior notice.
- The Trust Agreement is governed under laws other than the state in which the trust is established.
- Assets deposited in the Trust Account shall be eligible under the investment provisions of the insurance laws of a state other than the Ceding Insurer's state of domicile.

Reinsurance ceded to lender captive reinsurers that does not transfer sufficient risk shall be accounted for under deposit accounting guidelines, but should be identified on Supplementary Schedule F-5 as though unauthorized reinsurance accounting was being utilized.

Pursuant to A.R.S. § 20-1557(F), the **Supplementary Schedule F-5 is considered confidential** and therefore not available for public viewing. Each quarter, please **clearly mark your Company's Supplementary Schedule F-5 as "Confidential,"** and **include the report with the respective Annual Statement or Quarterly Statement filed with this Department only.**

**Do not file the confidential Supplementary Schedule F-5 with the N.A.I.C.**